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METAL MINES LIMITED

ANNUAL REPORT 1965

DIRECTORS' REPORT TO THE SHAREHOLDERS:

We take pleasure in presenting herewith the Annual Report for the year ended December 31, 1965, together with the Financial Statements as at that date and the Auditors' report thereon. A report on operations at the various properties by the Vice-President and General Manager is appended.

At the present time, the Company's chief source of revenue is the nickel-copper mine at Gordon Lake, Ontario, now referred to as the Werner Lake Division (due to the introduction of this name by the Postal Department). However, the uranium mine at Bancroft is expected to return to the ranks of the producers within a few years, and in the meantime new ventures are being undertaken, the most important of which are major participations in a new molybdenite producer near Rossland, B.C., and potash exploration in Manitoba.

Operations at Werner Lake continue to be hampered by a shortage of underground labour, particularly of skilled miners. The tremendous growth in mining and heavy construction throughout the country, and particularly in the far West, has led to a nation-wide scarcity of suitable workers, a condition for which no remedy is presently in sight. Any action taken by Government authorities has had, to date, little or no effect in alleviating the situation.

The labour shortage had the effect of reducing production at Werner Lake to a figure well below that budgeted for the year, in spite of the fact that the mine is in good physical condition and capable of higher tonnage. While the operation continued to earn a reasonable profit, a considerably larger figure is possible under normal labour conditions. Ore reserves were maintained at approximately the same tonnage as at the end of 1964, and favourable results are being returned in the new "D" zone where a vigorous development programme is under way.

The possibility of reopening the Bancroft uranium mine is under constant review and we are encouraged by the increasing growth in the rate of installation of nuclear power plants throughout the Western World. It is apparent that a shortage of uranium will develop within the foreseeable future and a resurgence of prospecting for new deposits is already under way. Under the circumstances, the reopening of the Bancroft mine may logically be anticipated, but the date remains uncertain.

During the year, negotiations were opened with two European groups interested in assuring themselves of a future supply of uranium. These talks are continuing. We also maintain liaison with Federal authorities at Ottawa concerned with nuclear matters.

At Red Mountain Mines Limited, near Rossland, B.C., the 400-ton-per-day molybdenite plant has been completed and is currently being run in. Metal Mines and International Nickel interests have financed construction of this plant. After return of capital expenditures, with 6% interest, Metal Mines will retain a 20% interest in the project.

A promising exploration venture during the year was the potash development in southwestern Manitoba by Prairie Potash Mines Limited. This company, originally a subsidiary of Metal Mines, is now being financed by the Canadian Nickel Company, the exploration arm of The International Nickel Company of Canada, who are in a position to earn a two-thirds interest in Prairie. The existence of a commercial potash deposit has now been demonstrated by drilling, engineering studies and metallurgical investigations. Currently, market studies are under way.

Recently, exploration for natural gas in an area 25 miles east of Montreal has been carried out by your Company and Louvicourt Goldfield Corporation as an equal partnership. Results have been encouraging and the two partners have formed a new company, L'Assomption Gaz et Pétrole Ltée., to continue the work.

A general programme of exploration and property examinations continued throughout the year.

The Board wishes to record its appreciation to all members of the mines' staff for their loyal and industrious service throughout the year.

On Behalf of the Board,

A. W. Johnston

Ashton W. Johnston
President

Toronto, Ontario
May 26th, 1966

REPORT OF THE GENERAL MANAGER

The President and Directors,
Metal Mines Limited,
Toronto, Ontario.

Dear Sirs:

The following report covers the operations of the Company for the year ended December 31, 1965.

WERNER (Formerly Gordon) LAKE DIVISION:

Production

The mine operated throughout the year at an average rate of 505 tons per day. Concentrate production totalled 19,094 tons with a recoverable metal content of 3,713,250 pounds of nickel, 1,930,617 pounds of copper, 875 ounces of platinum and 6,207 ounces of palladium. The concentrates are sold to The International Nickel Company of Canada at Sudbury, Ontario.

Development

An exploratory development programme was undertaken during the latter half of the year, and produced significant results in the discovery of a new ore zone in an area approximately 1,200 feet east of the main shaft. The ore commences about the 1,000 foot level and has been traced downward to the 1,350 foot level and is still open at depth. At the present time, the first stopes on this new ore are under development on the 1,200 foot level and on the 1,350 foot level. Further deep drilling is planned, to be followed by additional development work if warranted.

Mining

Tonnage mined shows a slight decrease from the figure for 1964. This is disappointing as, generally speaking, the mine is in excellent shape and capable of a higher rate of production. The main factor limiting tonnage has been the shortage of skilled miners and underground labour. Every effort is being made to adopt mining methods which will minimize labour requirements.

A new 60-man bunkhouse was constructed during the year, and it may be said that living conditions at the camp have been made as attractive as possible.

Milling

Performance figures are tabulated below, with comparative data for 1963 and 1964:

	1965	1964	1963
Tons milled	184,364	192,874	136,970
Heads, Nickel %	1.36	1.22	1.37
Copper %	0.64	0.57	0.56
Tails, Nickel %	0.22	0.20	0.26
Copper %	0.06	0.06	0.06
Recovery, Nickel %	85.4	85.1	82.8
Copper %	91.8	89.9	90.0
Concentrates, Nickel %	11.15	10.74	10.80
Copper %	5.54	5.53	4.78

Ore Reserves

Reserves as at December 31, 1965 are tabulated below with the corresponding figures for the previous year:

	1965			1964		
	Tons	Ni %	Cu %	Tons	Ni %	Cu %
Proven Ore	670,397	1.42	0.57	740,995	1.43	0.57
Probable Ore	303,658	1.27	0.59	175,711	1.28	0.40
Indicated Ore	114,200	1.40	0.46	114,200	1.40	0.40
	1,088,255	1.38	0.56	1,030,906	1.40	0.53

The increase in the "probable" category reflects the new "D" ore which has not as yet been sufficiently well outlined to be placed in the "proven" category.

Costs

Operating costs per ton showed an upward trend, largely due to low productivity from the labour force. Comparative figures for the past three years follow:

	1965	1964	1963
Development	$ 0.76	$ 0.77	$ 1.47
Mining	9.20	7.78	7.45
Milling	1.86	1.76	2.43
Marketing	1.76	1.59	1.53
	$13.58	$11.90	$12.88

Capital Expenditure

Capital expenditures totalled $208,000, the main item being the new 60-man bunkhouse and ancillary facilities. The remainder is made up of new operating equipment. Deferred development amounted to $67,774.

Employee Relations

The collective bargaining agreement with the Union expired on December 16th, 1965, and a new agreement was executed early in February of this year. Substantial wage increases were granted, but it is hoped that the effect of the additional cost will be at least partially offset by attracting a more efficient crew.

BANCROFT DIVISION

Equipment disposals have been completed for the time being. Most of the mining machinery, shop equipment, and crusher-house equipment has been disposed of, but the mill equipment is all in place and is being maintained in good condition.

A programme of surface diamond drilling designed to locate favourable geological areas for ore deposition was started during the year, and is currently being continued. No assessment of results can be made as yet.

It may be of interest again to note the current ore reserve situation:

	Tons	% U_3O_8	Pounds U_3O_8
Proven Ore	128,350	0.134	344,750
Probable Ore	324,900	0.148	966,548
	453,250	0.144	1,311,298

Most of these reserves are located on the bottom three levels which have been only partially developed. There are good exploration possibilities on all of the present levels and the deposit is open to depth.

RED MOUNTAIN MINES LIMITED

Completion of the 400-ton-per-day open-pit and concentrator plant was delayed beyond the anticipated date due to late deliveries of building materials and processing equipment. The mill was first turned over on April 24, 1966, and is currently being brought up to the scheduled production rate.

Some additional diamond drilling was carried out during the year, resulting in significant additions to the ore reserve figure which is now estimated at 966,000 tons, proven, probable and indicated, with an average grade of 0.37% MoS_2. Grade for the first few years of operation is expected to exceed 0.40% MoS_2. Chances for finding additional ore are considered good, and further drilling should be undertaken after a normal production routine has been established.

JOHNSBY MINES LIMITED

Operations at this small silver-lead-zinc producer in the Slocan Area of British Columbia continued throughout the year at an average daily mill rate of about 40 tons. An operating profit of approximately $35,000 was recorded.

PRAIRIE POTASH MINES LIMITED

During the year, additions to the potash land holdings were made, and the company now has permits and leases covering approximately 71,000 acres in southwestern Manitoba. A total of 14 holes have now been completed, of which 8 were drilled in 1965. Of these, 12 have returned economic potash intersections and the existence of a mineable deposit can be regarded as proven. A feasibility study prepared by Kilborn Engineering Limited, of Toronto, gives a most favourable report on the economics of the project. Metallurgical studies have recently been completed at the Colorado School of Mines whose report indicates no difficulties in treatment. Marketing studies are now underway.

EXPLORATION

A programme of general exploration was continued during the year. This included diamond drilling of the Company's Calvert Township properties in the Timmins area of northern Ontario and, in partnership with other mining companies, geophysical surveying and diamond drilling of two large areas in northwestern Quebec. Unfortunately, no significant discoveries were made.

Respectfully submitted,

H. Brodie Hicks

H. Brodie Hicks,

Vice-President and
General Manager

Toronto, Ontario
May 26th, 1966

METAL MINES LIMITED (No Personal Liability)

Incorporated under the laws of Quebec

BALANCE SHEET December 31, 1965

ASSETS

Current assets:			
Cash and short term bank deposits		1,070,184	
Concentrates, at estimated sales value		867,090	
Accounts receivable and accrued interest		107,555	
6¼% Mortgage receivable, due June 15, 1966		119,900	
Supplies, at average cost		298,212	
Prepaid expenses		18,462	2,481,403
Investments and advances (note 1):			
Red Mountain Mines Limited:			
Shares, at nominal value	1		
Advances	326,000	326,001	
Prairie Potash Mines Limited:			
Shares, at cost		180,000	
Smelter Power Corporation:			
Shares, at nominal value	1		
Advances	159,120	159,121	
Other companies:			
Shares, at cost (market value $381,028)	518,120		
Advances	87,500	605,620	
Advances to parent company, The Canadian Faraday Corporation Limited		419,579	1,690,321
Fixed assets (note 2):			
Buildings, plant and equipment		3,426,951	
Less Accumulated depreciation		958,021	
		2,468,930	
Mining claims, rights, properties and leases		5,316	2,474,246
Other assets:			
Interest in power line, at cost less recoveries		169,303	
Deferred development expenditures, less amortization		116,511	285,814
			$6,931,784

AUDITORS' REPORT

To the Shareholders of
Metal Mines Limited (No Personal Liability):

We have examined the balance sheet of Metal Mines Limited (No Personal Liability) as at December 31, 1965 and the statements of income and deficit for the year ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the company, the accompanying balance sheet and related statements of income and deficit are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the company as at December 31, 1965 and the results of its operations for the year ended on that date, in accordance with generally accepted accounting principles, except for the omission of amortization of preproduction expenditures referred to in note 3, applied on a basis consistent with that of the preceding year, except for the change in accounting practice indicated in note 4.

Toronto, Canada,
January 21, 1966.

THORNE, MULHOLLAND, HOWSON & McPHERSON,
Chartered Accountants.

LIABILITIES

Current liabilities:		
Accounts payable and accrued expenses	215,006	
Dividend payable	288,628	503,634

SHAREHOLDERS' EQUITY

Capital stock:		
Authorized, 8,500,000 shares, par value $1.00 each		
Issued, 7,215,700 shares	7,215,700	
Deficit	787,550	6,428,150

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	$6,931,784

The accompanying notes are an integral part of this statement.

Approved on behalf of the Board: A. W. Johnston, Director L. E. Wetmore, Director

NOTES TO FINANCIAL STATEMENT Year ended December 31, 1965

1. Investments and advances:

Red Mountain Mines Limited:

Pursuant to an agreement with Torwest Resources (1962) Ltd. dated December 15, 1964, Metal Mines Limited has expended $120,000 exploring a molybdenite property near Rossland, British Columbia, and had subsequently incorporated Red Mountain Mines Limited to commercially develop and operate the property.

Under the terms of the agreement, Metal Mines,

(1) obtained 40% of the issued common shares of Red Mountain and an option to purchase 1,000,000 shares of Torwest at $1.50 per share between January 1, 1965 and September 17, 1967, and

(2) undertook to advance the operating company sufficient funds to commercially develop the property and to provide adequate working capital, such advances to be secured by 6% debentures.

By agreement dated February 5, 1965, Metal Mines assigned one-half of its interest in and obligation under the above agreement to Canadian Nickel Company Limited.

Smelter Power Corporation:

Pursuant to an agreement dated November 16, 1965, the company has received $5,000 for granting an option to purchase all of its shares of Smelter Power Corporation for $250,000 up to February 16, 1966.

Other companies:

In some instances large blocks of shares are held and quoted market values are not necessarily indicative of amounts that might be realized if the shares were to be sold.

2. Fixed assets:

Buildings, plant and equipment:

Werner Lake Division, at cost		3,405,791
Bancroft Division:		
Buildings, plant and equipment at vendor's book value at date of acquisition	12,364	
Subsequently acquired, at cost	8,796	21,160
		$3,426,951

2. Fixed assets (continued)

Mining claims, rights, properties and leases:

Werner Lake Division:			
128 claims, at nominal value			1
Bancroft Division:			
Mining claims, rights, properties and leases at nominal value		1	
Subsequently acquired, at cost:			
Surface rights	3,514		
Other claims	1,800	5,314	5,315
			$ 5,316

3. Preproduction expenditures:

In 1963 the company changed its practice of amortization, at 10% per annum on cost, and wrote off to deficit unamortized preproduction expenditures in the amount of $5,119,395. Accordingly, no provision for amortization has been necessary for the current year.

4. Outside exploration:

In 1965 the company changed its practice of charging to income outside exploration expenditures and wrote off expenditures of $156,383 to deficit.

5. Contingent liability:

The company has guaranteed the bank loan of the Gordon Lake Athletic Association in the amount of $16,800.

METAL MINES LIMITED (No Personal Liability)

STATEMENT OF INCOME Year ended December 31, 1965

Sale of concentrates		3,040,286
Operating expenses		2,538,157
		502,129
Bancroft mine maintenance expense	46,367	
Depreciation	340,923	
Amortization of deferred development	21,775	409,065
Income before undernoted items		93,064
Add:		
Adjustment of prior years' income taxes	49,396	
Option payment received (note 1)	5,000	54,396
Net income for year (notes 3 and 4)		$ 147,460

STATEMENT OF DEFICIT Year ended December 31, 1965

Deficit at beginning of year		555,496
Add Outside exploration		156,383
		711,879
Deduct:		
Net income for year	147,460	
Profit on sale of fixed assets	65,497	212,957
		498,922
Add Dividend declared		288,628
Deficit at end of year		$ 787,550

OFFICERS AND DIRECTORS

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A. W. Johnston

Vice-President and General Manager
H. B. Hicks

Secretary
L. E. Wetmore

Treasurer
W. M. O'Shaughnessy

Directors
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H. B. Hicks
L. E. Wetmore
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A. B. Whitelaw
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